**BEFORE THE
POSTAL RATE COMMISSION
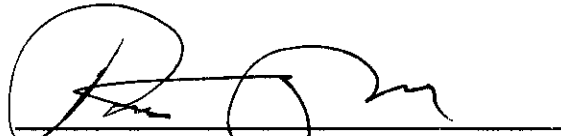WASHINGTON, D.C. 20268-0001**

POSTAL RATE AND FEE CHANGES, 2000   **DOCKET NO. R2000-1**

FURTHER ERRATA TO REBUTTAL TESTIMONY
OF SANDER A. GLICK (PSA-RT-1)
ON BEHALF OF PARCEL SHIPPERS ASSOCIATION

The attached errata provides corrections to pages 3 and 17, and further corrections to page 27 of PSA-RT-1.
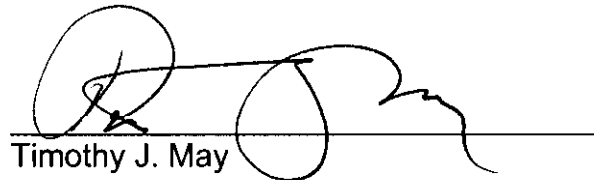
Respectfully submitted,

Timothy J. May, Esquire
Patton Boggs LLP
2550 M Street, NW
Washington, DC 20037-1350
Tel. 202/457-6050
Fax: 202/457-6315

Counsel for Parcel Shippers Association

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

Timothy J. May

Dated: August 21, 2000

#560224

1   6. Contrary to Mr. Luciani's suggestion, the Postal Service's method for

2   distributing Alaska air costs to rate category is appropriate.

3

4   7. Just as it did in Docket No. R97-1, the Commission should pass through

5   nearly 100 percent of the DDU cost avoidance. UPS has provided no

6   justification for passing through less.

7

8   8. Mr. Luciani's bottom-up model of DDU costs is incorrect. Therefore, his

9   related criticism of the Postal Service's rate design approach is irrelevant.

10

11   In the remainder of this testimony, I provide detail on each of these points.

12   **1. The joint Bulk Revenue, Pieces and Weight/Domestic Revenue, Pieces**
13   **and Weight (BRPW/DRPW) system that the Postal Service used to estimate**
14   **Parcel Post revenue, pieces, and weight is more accurate than DRPW, the**
15   **system that the Postal Service used in past cases.**

16   Mr. Sellick believes that the new BRPW/DRPW method[1] for deriving **Parcel Post**

17   RPW estimates is unreliable and that the Commission "should instead use the

18   FY 1998 DRPW-only estimates." Tr. 31/15037 and 15039 (Sellick). However,

19   Mr. Sellick does not provide a persuasive argument to substantiate his belief.

20   Instead, he describes three possible problems with the new method, none of

21   which is likely to cause a significant impact on the Parcel Post RPW estimates.

22   Furthermore, the potential problems described by Mr. Sellick do not explain the

23   19 percent difference between the Parcel Post estimates derived by the new

24   BRPW/DRPW method and those produced by the former DRPW-only method.

25   Tr. 31/15034 (Sellick). On the other hand, the Postal Service's explanation is

26   reasonable, can explain the entire discrepancy, and shows that the new method

27   corrects a serious data collection problem with the DRPW-only method.

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[1] The new BRPW/DRPW method estimates RPW for permit imprint Parcel Post from the BRPW system and RPW for all other Parcel Post from the DRPW system. The old DRPW-only method estimated RPW for the entire Parcel Post subclass using the DRPW system.

1   **Table 2. Calculation of Base Year and Test Year Unit Mail Processing Cost**
2   **Avoidance for DBMC Parcels**
3

		Total Cost	Volume	Unit Cost
Outgoing, Non-BMC Costs for Non-DBMC Parcels	[1]	$45,090,994	106,434,805	$0.424
Non-DBMC Parcels Entered at BMCs	[2]	$391,962	8,710,275	$0.045
Non-DBMC Parcels Not Entered at BMCs	[3]=[1]-[2]	$44,699,032	97,724,530	$0.457
Outgoing, Non-BMC Costs for Intra-BMC Parcels	[4]=[3]			$0.457
Outgoing, Non-BMC Costs for DBMC Parcels	[5]			$0.045
Base Year Unit Cost Avoided	[6=[4]-[5]			$0.412
Wage Rate Adjustment Factor	[7]			$1.124
TYAR Unit Cost Avoided	[8]=[6]x[7]			$0.463

[1] Table 1
[2] Unit Cost = DBMC Unit Cost from Table 1
Volume from USPS-T-26, Attachment F at 3
Total Cost = Volume x Unit Cost
[3] Unit Cost = Total Cost/Volume
[5] Table 1
[7] USPS-T-26, Attachment F at 2

4   **5. The Destination Delivery Unit (DDU) cost avoidance is larger than**
5   **estimated by the Postal Service, not smaller.**

6   Mr. Luciani argues that the Postal Service-estimated DDU cost avoidance is too

7   large. In this section, I rebut his argument and explain why the Postal Service's

8   estimated DDU cost avoidance is actually too low.

9

10   **A. Because the Postal Service's proposed nonmachinable surcharges for**
11   **intra-BMC and DBMC parcels are not cost based, the DDU discount should**
12   **be based on an average of the machinable and nonmachinable DDU cost**
13   **avoidances.**

14   Mr. Luciani argues that the DDU discount should be based upon only the

15   machinable cost difference because "both intra-BMC and DBMC-entry non-

16   machinable parcels are proposed to be assessed a cost-based surcharge." Tr.

17   25/11797, 11801 (Luciani). This is not the case. Mr. Plunkett is proposing to

18   pass through only 35 percent of the nonmachinable cost difference. USPS-T-36

19   at **14**. Such a passthrough results in a surcharge that is closer to zero than to

20   the actual cost difference. Therefore, this surcharge is not cost based and Mr.

21   Luciani's argument is irrelevant.

1   much less necessary. Therefore, Mr. Plunkett's logic would argue for passing

2   through significantly more than 80 percent of the DDU cost avoidance should the

3   Commission use the DBMC cost avoidance that I propose.

4   **8. Mr. Luciani's bottom-up model of DDU costs is incorrect. Therefore, his**
5   **related criticism of the Postal Service's rate design approach is irrelevant.**

6   To assess whether the Postal Service's general rate design approach is

7   reasonable, Mr. Luciani attempted to develop a bottom-up DDU cost estimate

8   and then to compare this estimate with the DDU unit cost implicit in Mr. Plunkett's

9   proposed DDU rate. Mr. Luciani apparently believes that if there is a discrepancy

10   between the two estimates then some input into the Postal Service's rate design

11   must be wrong. Tr. 25/11806-11807 (Luciani). While there is a discrepancy

12   between the two estimates, the discrepancy is due to a flaw in Mr. Luciani's

13   model.

14

15   The discrepancy identified by Mr. Luciani is that his bottom-up cost model

16   produces a cost estimate of $1.14 while he derives a DDU cost of 96 cents from

17   Mr. Plunkett's rate design. Tr. 25/11806 (Luciani). As I discuss in testimony filed

18   under seal, because it discusses evidence filed under seal, the discrepancy

19   vanishes once Mr. Luciani's model is corrected to reflect a mistake he made in

20   estimating rural carrier costs for DDU parcels.

21

22   Once this mistake in Mr. Luciani's model is corrected, the model produces a unit

23   cost for a DDU parcel of approximately **97** cents, **which is about the same as**

24   the unit cost Mr. Luciani derived from Mr. Plunkett's analysis. **PSA-RT-3.**